

Message Text

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PAGE 01 HONG K 11710 230844Z

13

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USLO PEKING

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C O N F I D E N T I A L HONG KONG 11710

NOFORN

E.O. 11652: XGDS-2

TAGS: ENRG ETRD CH US

SUBJ: NCUSCT-CCPIT DISCUSSION OF ENERGY DEVELOPMENT

SUMMARY: ALL INDICATIONS ARE THAT CCPIT AND VICE-PREMIER LI HSIEN-NIEN REACTED IN A STRONGLY NEGATIVE WAY TO THE NCUSCT'S PRESENTATION ON WAYS IN WHICH US OIL COMPANIES COULD HELP EXPLOIT THE PRC'S OIL RESOURCES. WE DO NOT INTERPRET THIS AS A HARDENING OF PEKING'S POSITION. RATHER IT APPEARS TO US TO BE THE RESPONSE TO BE EXPECTED FROM A PRESENTATION THAT APPARENTLY HIGHLIGHTED SUCH MATTERS AS JOINT VENTURES, JOINT EXPLORATION AND EXPLOITATION AND/OR PRODUCT SHARING. AS THERE ARE NUMEROUS OTHER ARRANGEMENTS POSSIBLE, WE DO NOT THINK US COMPANIES SHOULD BE DISCOURAGED BY THIS EVENT FROM CONTINUING TO EXPLORE THE PRC MARKET, ESPECIALLY FOR SALES OF EQUIPMENT AND TECHNICAL SERVICES.
END SUMMARY

1. REPORTS TO CONGEN OFFICERS FROM PHILLIPS, THEROUX AND
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PAGE 02 HONG K 11710 230844Z

GIBSON UPON EXITING THE PRC ALL AGREE THAT CCPIT REACTED

VERY NEGATIVELY TO LATTER'S PRESENTATION ON WAYS US COMPANIES, PARTICULARLY US OIL MAJORS, COULD PARTICIPATE IN THE DEVELOPMENT AND EXPLOITATION OF THE PRC'S ENERGY RESOURCES, ESPECIALLY OIL. GIBSON DESCRIBED A RANGE OF POSSIBLE MODALITIES THAT, WHILE IT INCLUDED THE SALE OF EQUIPMENT AND TECHNICAL SERVICES, APPARENTLY LED OFF WITH AND HIGHLIGHTED SUCH MATTERS AS JOINT VENTURES, JOINT EXPLORATION AND EXPLOITATION AND PRODUCT SHARING AS A MEANS TO PAY FOR THESE ACTIVITIES. GIVEN THE PRC'S WELL KNOWN VIEWS ON MULTINATIONAL COMPANIES, THE EXPLOITATION OF UNDERDEVELOPED COUNTRIES AND ENERGY RESOURCES AS A PATRIMONY THAT MUST REMAIN UNDER ITS OWN CONTROL, A NEGATIVE RESPONSE FROM CCPIT WAS TO HAVE BEEN EXPECTED, IT SEEMS TO US. LIKEWISE, WHEN BURNHAM RAISED THE SUBJECT LATER WITH VICE PREMIER LI HSIEN-NIEN, IT WAS TO BE EXPECTED THAT HE HAD BEEN WELL BRIEFED ON NCUSCT'S DISCUSSIONS AND WOULD SIMILARLY REACT STRONGLY AND NEGATIVELY, AS HE REPORTEDLY DID.

2. WE DO NOT VIEW THESE RESPONSES AS A HARDENING OF PEKING'S POSITION ON THE APPROPRIATE ROLE IN ITS ENERGY RESOURCES DEVELOPMENT FOR EITHER FOREIGN COMPANIES IN GENERAL OR AMERICAN COMPANIES IN PARTICULAR. RATHER, IT APPEARS TO US TO BE THE EXPECTED CHINESE REACTION TO PROPOSITIONS THAT CLEARLY FALL FAR OUTSIDE THOSE CURRENTLY ACCEPTABLE. (WE HOPE THAT A REVIEW OF THE FULL TEXTS OF GIBSON'S REMARKS AND THE CHINESE RESPONSES WILL SHED MORE LIGHT ON THIS MATTER.)

3. IN VIEW OF RECENT CHINESE CONTRACTS AND DISCUSSIONS WITH THE US AND JAPAN FOR OIL EXPLORATION AND EXPLOITATION EQUIPMENT AND RECENT PURCHASE OF A FRENCH SEISMIC SURVEY SHIP, WHICH INCLUDES OPERATION WITH A JOINT FRENCH-CHINESE CREW AT LEAST FOR THE PURPOSE OF PROVIDING ON-THE-JOB TRAINING, WE THINK PEKING WILL CONTINUE TO MAKE SUBSTANTIAL PURCHASES OF BOTH EQUIPMENT AND TECHNICAL SERVICES, ALTHOUGH THE LATTER MAY OFTEN BE SUBSUMED UNDER THE HEADING OF TRAINING FOR CHINESE TECHNICIANS. WE DO NOT THINK US COMPANIES SHOULD BE DISCOURAGED BY THE GIBSON-CCPIT EXCHANGE FROM EXPLORING THE PRC ENERGY RESOURCES MARKET, ESPECIALLY

CONFIDENTIAL

PAGE 03 HONG K 11710 230844Z

FOR SALES OF EQUIPMENT, TECHNOLOGY, TRAINING AND TECHNICAL SERVICES--ALL AREAS IN WHICH THE PRC IS ALREADY PURCHASING. FURTHERMORE, SINCE WE KNOW FROM CONVERSATIONS HERE WITH SOME LARGE U.S. OIL COMPANIES THAT THEY ARE PREPARED TO MAKE NUMEROUS OTHER SORTS OF ARRANGEMENTS WITH THE PRC FOR EXPLORATION AND DEVELOPMENT OF OIL RESOURCES (BOTH ON-AND OFF-SHORE), WE THINK US COMPANIES SHOULD BE ENCOURAGED TO CONTINUE TO SEEK OPPORTUNITIES FOR DISCUSSIONS WITH THE

CHINESE ABOUT ARRANGEMENTS THAT AVOID SUCH KNOWN BOGEYS
AS JOINT VENTURES AND JOINT EXPLOITATION.
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